



### GROUP RESULTS

In the year 2000/2001, the Group's businesses were adversely affected in two aspects. Firstly, in March 2000, the bubble of the technology stocks in the United States ("US") burst, which triggered off the downturn of global equity markets and had a negative impact on the earning prospect of companies worldwide. Despite a series of interest rate reductions by the US Federal Reserve since January 2001, the US retail market has yet to recover. Our sales prices were therefore under pressure and the Group's export business was inferior to that of last year. The results of the retail operations in Australia and New Zealand were disappointing and fell below the Management's expectations. It was attributed to the relentless downshift of the Aussie dollar exchange rate which hit its lowest

since its free floating in 1983. The Aussie dollar depreciated against Hong Kong dollars by more than 20% when compared with end March of last year. The slowdown of the global economy during the year inevitably affected the Australian economy. The sluggish retail market brought about by the Goods and Services Tax introduced in July last year further hampered the business environment. Consequently the retail operations in Australia and New Zealand recorded a loss for the first time since the Group's public listing.

In this financial year, our retail operations in the People's Republic of China (the "PRC") kept improving. Our staff managed to overcome the competitive and fluctuating market conditions by streamlining workflow and by improving the operation of every unit along the supply chain. The efficiency and flexibility of our operation system were thus enhanced. The growth of comparable same store sales turned from negative to positive this year. Our operating margin also improved. In expanding our retail network, the Management focused on adding new stores in the prime locations of first tier cities.

In the year under review, the Group's financial position was in good shape. Its inventory level improved steadily. Our net cash in hand amounted to HK\$389,805,000. The Group's consolidated turnover was HK\$3,003,243,000 (2000: HK\$3,030,806,000) and net profit attributable to shareholders was HK\$182,250,000 (2000: HK\$240,503,000) showing a decrease of 0.91% and 24.2% respectively when compared with the previous year.

## CHAIRMAN'S STATEMENT

### DIVIDENDS

The Directors have resolved to recommend the payment of a final dividend of 7.50 HK cents (2000: 7.50 HK cents) per share for the year ended 31 March 2001 at the forthcoming Annual General Meeting to be held on Friday, 7 September 2001. The final dividend amounting to HK\$75,044,000, if approved by shareholders, is expected to be paid on or around Friday, 14 September 2001 to those shareholders whose names appear on the Register of Members on Friday, 7 September 2001.

### REVIEW OF OPERATIONS

#### Retailing

In the year under review, the performance of the Group's operations was fairly mixed. The operations in Australia and New Zealand slipped, but that in Mainland China progressed steadily. The total number of shops in our retail network was 709 (2000: 691 shops) including 29 franchised shops (2000: 43 shops). The total retail turnover of the year was HK\$1,346,586,000 (2000: HK\$1,461,228,000) showing a decrease of 7.85% when compared with last year. The decrease was mainly attributable to the drop in sales in Australia and New Zealand, which outpaced the growth in the Mainland China operation. The inventory turnover was further reduced from 71 to 63 days because the Management preferred keeping inventory at a healthy level even at the expense of narrowing operating margin.

#### 1. *In Mainland China*

During the year the retail market in the Mainland China was very competitive. Although deflation still persisted, the slowdown of the economy in Europe and US did not have a material adverse effect on general economic conditions. The retail sentiment was better than that of last year. The Group's retail operations performed in line with expectation. The recovery of the retail market since last year was mainly driven by the growth of export and the increase of foreign direct investment. Naturally, retail sentiment in the first tier cities was comparatively stronger than that in the second and third tier cities. The Group therefore opted for opening more flag-ship stores in prime locations in the first tier cities, such as Beijing and Shanghai so as to uplift our brand image and to secure our market share. We also endeavoured to streamline our supply chain and to shorten the production and replenishment lead-time for efficiency and flexibility. This was to lower both the inventory level and the risks involved. Shop-front renovations were proceeded on schedule as part of our effort in brand building and providing a better shopping environment to our customers.

In the year under review, the retail sales amounted to HK\$822,470,000 (2000: HK\$806,223,000) showing an increase of 2.02%. The total number of shops in our network was 483 (2000: 480 shops) including 23 franchised shops (2000: 37 shops).

## CHAIRMAN'S STATEMENT

### 2. *In Australia and New Zealand*

The exchange rate of Aussie dollars kept dropping and hit its lowest since 1983. It depreciated against Hong Kong Dollars by more than 20% when compared with the end of March last year. This resulted in a drastic increase of our cost for imported merchandise. The Goods and Services Tax levy further dampened the consumers market and encroached deeper into our operating margin. In the second half of the year, the global economy was weakened by the downturn in the US economy. The Australia and New Zealand economy was also negatively affected and the retail market hard hit. In this market condition, the newly launched product lines namely Sunshine and Old Garage performed far below the Management's expectation. Despite the effort of our staff in Australia and New Zealand to reduce operating cost, to close down non-performing stores and to strengthen product promotion and shop-front services, losses could not be avoided.

The total sales in Australia and New Zealand amounted to HK\$524,116,000 (2000: HK\$655,005,000) showing a decline of 20.0% when compared with last year. The total number of shops in our retail network was 226 (2000: 211 shops) including 6 franchised shops (2000: 6 shops).

### **Export**

Our manufacturing operations continued to support our retail and export businesses. Due to the US retail market being very competitive following the softening of US economy after its peak in the third quarter of last year, the pricing of our export products became under pressure. Coupled with the export quota limitation, export business could not match up with that of last year. Our production system had been highly vertically integrated. In order to further improve flexibility and versatility, a working group had been formed to strengthen the co-ordination among production units so as to study how to further improve our competitiveness by reducing production lead-time and operating costs. Total turnover of HK\$1,392,138,000 (2000: HK\$1,334,766,000) was recorded, representing an increase of 4.30% when compared with previous year.

### **Other Businesses**

Among other businesses, trading of fabric was the main operation. The turnover was HK\$264,519,000 (2000: HK\$234,812,000) representing an increase of 12.7% from last year.

## CHAIRMAN'S STATEMENT

### FINANCIAL POSITIONS

The Group continued to manage its financial matters in a prudent manner, and thus maintained a healthy financial position during the period. As at the year end date, total bank and related borrowings amounted to HK\$490,906,000 (2000: HK\$459,595,000) while cash and bank balances amounted to HK\$880,711,000 (2000: HK\$778,617,000). The Group held net cash of HK\$389,805,000 (2000: HK\$319,022,000). The calculation of debt to equity ratio (expressed as a percentage of bank and related borrowings net of cash and bank balances over total net assets of the Group) is therefore not applicable.

During the year under review, the Group entered into foreign currency forward contracts to hedge the currency risk in Aussie dollars. As at the year end date, the Group had contingent liabilities of HK\$16,068,000 (2000: HK\$32,082,000) associated with the export bill discounted with recourse.

### PROSPECTS

A series of interest rate reductions was taken as a means by the US Federal Reserve to jump-start the depressing economy. There is no consensus as to whether or not US economy will have a soft landing or an American L-shape development. The optimistic view asserts that the effect of lowering interest rate will surface by the end of this year, and then the equity bull market will follow. Economic recovery can then be expected in the first quarter of next year. In other words, our export business in the near future has to weather some kind of pricing pressure and gross margin encroachment. We are ready to meet these challenges by stringent cost control and by improving efficiency of all units in our supply chain.

It is unlikely for the economies in Australia and New Zealand to recover ahead of US. The Australia and New Zealand retail markets are not expected to rebound shortly. We hope the local currencies will stand firm at the present low level so as to provide a comparably stable environment for the Management to consolidate the operations. More flexible and competitive sources of supplies with shorter supply lead-time will be explored to lower our costs. In order to cut loss, we will prioritise the closing down of shops which do not perform.

Looking forward, the macro economic development in the PRC is comparatively promising. The Group will be more aggressive in this market. On top of our commitment to improve product design and quality as well as our customer services, we hope to open more stores in the prime locations of the first tier cities. More resources will be diverted to brand investment so as to secure and increase our market share.

In the absence of major unforeseeable adverse changes, the Group is able to keep the business on a steady course.

## CHAIRMAN'S STATEMENT

### APPRECIATION

On behalf of the Board of Directors, I would like to take this opportunity to express our sincere appreciation to the shareholders for their support, and to the Management and staff for their dedicated efforts.

**Charles Yeung, J.P.**  
*Chairman*

Hong Kong, 20 July 2001